

BILL # HB 2029

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TITLE: CORP; Arizona state hospital employees

STATUS: As Amended by PIR

FISCAL ANALYSIS

Description

HB 2029 allows specifically designated positions that have routine contact with patients at the Arizona State Hospital to participate in the Correctional Officers Retirement Plan (CORP). Actual participation is based on the Department of Health Services (DHS) entering a joinder agreement with the Fund Manager and the consent of the participant. Participating employees would transfer their current accounts from the Arizona State Retirement System (ASRS) to CORP. The amendment defines administrative procedures and duties within ASRS.

Estimated Impact

The fiscal impact of the bill cannot be determined in advance. The bill allows the transfer of participants to occur, but does not mandate the transfer. If DHS does enter a joinder agreement for FY 2009 with the Fund Manager, the expected state General Fund impact could be a \$92,000 savings, based on a rate calculation by the Fund Manager. However, based on current trends, the bill will likely create additional costs in the long term. One such cost would be \$218,000 to the General Fund and \$87,100 to Other Funds due to estimated future increases in the contribution rate for ASRS.

Analysis

In the CORP system, each employer has a different retirement contribution rate based on the characteristics of their participants. This analysis assumes that all eligible Arizona State Hospital employees choose to transfer to CORP, as they can opt out of the transfer.

Contribution rates have 2 components. The first component is the normal cost, which is the permanent cost associated with providing the benefit. The second component is the unfunded liability. Unfunded liability is created by adding benefits or changing assumptions and represents the cost of providing benefits to recipients who did not pay the full cost of the benefits as part of the normal cost. Unfunded liability is paid off over a specific amortization time period. The amortization period for CORP is 30 years.

Actuaries under contract for the Fund Manager estimated that the employer contribution rate would be 9.15% for the Arizona State Hospital, based on the current plan provision. This consists of a normal cost of 6.92% and an unfunded liability of 2.23%. Currently, all the participants are enrolled in the ASRS system. Under ASRS, the FY 2009 employer retirement rate (including Long Term Disability) is 9.45%. The 9.15% CORP rate is (30) basis points or (0.3)% lower than the ASRS rate, which indicates there would be a savings to the state.

Total unfunded liability under CORP for the Arizona State Hospital would be \$13.6 million; however, the corresponding decrease in ASRS unfunded liability would only be \$6.0 million.

The normal cost under ASRS is 6.47%, which is lower than the estimated normal cost under CORP. This indicates that the long-term cost for DHS would actually be higher in the CORP system, based on current demographics and benefits. There are several reasons for this including higher benefits under CORP, a higher assumed rate of return on CORP investments and differences in the methods of the different actuaries.

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The decrease in the number of participants contributing to ASRS would raise the contribution rate for the remaining participants by 20 basis points or 0.02%. Since the ASRS contribution rate is rounded to the nearest 50 basis points or 0.05%, this would not change the FY 2009 contribution rate calculations. However, this would add \$218,000 to the General Fund and \$87,100 to Other Funds to the state's long-term annual cost.

In addition, CORP rates are increasing for FY 2009, while ASRS rates will decline. An audit recently conducted by the Fund Manager identified several assumptions that need to be updated in CORP. Changing these assumptions will result in higher contribution rates in the coming years. Therefore, while there is some savings incurred by the bill in FY 2009, there are likely to be additional costs in future years.

The administrative costs to ASRS added by the amendment will be absorbed into the operating expenses of ASRS and will not impact DHS.

Local Government Impact

None

3/28/08